



DEPARTMENT OF DEFENSE

# AUDIT REPORT

SCREENING OF MATERIEL AVAILABLE IN THE  
DEFENSE REUTILIZATION AND MARKETING SERVICE

No. 90-080

June 6, 1990

*Office of the  
Inspector General*



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DEPARTMENT OF DEFENSE  
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ARLINGTON, VIRGINIA 22202-2884

June 6, 1990

MEMORANDUM FOR ASSISTANT SECRETARY OF DEFENSE (PRODUCTION AND LOGISTICS)  
ASSISTANT SECRETARY OF THE ARMY (FINANCIAL MANAGEMENT)  
ASSISTANT SECRETARY OF THE NAVY (FINANCIAL MANAGEMENT)  
ASSISTANT SECRETARY OF THE AIR FORCE (FINANCIAL MANAGEMENT AND COMPTROLLER)  
DIRECTOR, DEFENSE LOGISTICS AGENCY

SUBJECT: Report on the Audit of Screening of Materiel Available in the Defense Reutilization and Marketing Service (Report No. 90-080)

This is the final report on the Audit of Screening of Materiel Available in the Defense Reutilization and Marketing Service (DRMS) for your information and use. Comments on a draft of this report were considered in preparing the final report. We performed the audit from October 1988 through June 1989. The audit objectives were to evaluate the adequacy and effectiveness of the DoD wholesale inventory management activities' screening and requisitioning of materiel in the DRMS during the Front End Screening (FES) and Final Asset Screening (FAS) processes. We also reviewed the internal controls used to ensure that applicable policies were enforced. The DRMS offered materiel valued at \$839 million for FES and \$677 million for FAS in fiscal year 1988.

DoD Components' screening and requisitioning of materiel available in the DRMS through the FES and FAS programs generally was not adequate or effective. The Components' major inventory activities often were not recovering materiel that could have been used to satisfy forecasted requirements and authorized inventory retention levels. The results of our audit are summarized in the following paragraph, and the details, audit recommendations, and management comments are in Part II of this report.

DoD wholesale inventory management activities did not adequately screen, and submit valid requisitions for, materiel that was offered by DRMS through FES and FAS. We estimated that for the 4-month period from August 21 through December 20, 1988, \$26.9 million of materiel should have been ordered by wholesale inventory management activities from DRMS in response to FES/FAS notices, but only \$3.7 million of materiel was ordered. Although some of the materiel that should have been recovered from the system by wholesale inventory management activities may have been

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subsequently withdrawn and used by other DoD activities, Federal Agencies, state and other eligible organizations, most of the materiel can be expected to be scrapped or sold for a few cents on the dollar. We recommended that the Military Departments establish procedures and controls for timely review and response to FES and FAS notices; that the Navy and Defense Logistics Agency (DLA) revise their criteria for ordering FES/FAS materiel; that the Military Departments establish management controls and oversight to monitor the effectiveness of their FES/FAS screening; that the Army, Navy, and DLA establish procedures and controls to preclude concurrent procurement of materiel available for reutilization in the DRMS; and that the Navy and DLA revise the condition code criteria used in processing Navy requisitions for FES/FAS materiel (page 5).

During the course of the audit, we informed management at various activities of other conditions that we found, and they implemented corrective action immediately. These conditions are synopsized in Appendix B.

The audit identified internal control weaknesses as defined by Public Law 97-255, Office of Management and Budget Circular A-123, and DoD Directive 5010.38. There was a general lack of control procedures over all phases of the FES/FAS programs, from receipt of the notices to receipt of requisitioned materiel, at the DoD inventory management activities. The recommendations in this report, if implemented, will correct the weaknesses. We could not readily determine the monetary benefits to be realized by implementing the recommendations in this report (see Appendix G). The monetary benefits were not readily identifiable because some of the materiel in the DRMS would require varying amounts of repair before it could be used, some materiel not ordered by wholesale activities would be recovered by other DoD activities, and some materiel that might have been recovered by wholesale activities to satisfy retention levels may not be otherwise procured. A copy of this report will be provided to the senior officials responsible for internal controls within each of the Military Departments and the Defense Logistics Agency.

Management generally concurred with the finding and recommendations. However, the Navy and DLA nonconcurred with Recommendation 2., to revise their criteria for reutilization of FES/FAS materiel, because they felt it would not be cost-effective. The Air Force concurred with the intent of Recommendation 3., to establish management controls and oversight to monitor the effectiveness of the FES/FAS programs, but felt that the Air Force's controls and oversight were adequate. DLA concurred with Recommendation 4., to establish procedures and controls to preclude concurrent procurement and disposal of materiel, but believed that its existing procedures and controls

were adequate. We believe that Recommendations 2., 3., and 4. are valid for reasons discussed in Part II of this report; therefore, we ask that the Navy, Air Force, and DLA reconsider their positions and provide final comments to this report. The Navy and DLA concurred with Recommendation 5., but did not provide a completion date for corrective action. We ask that they provide a completion date in their responses to this report.

DoD Directive 7650.3 requires that all audit recommendations be resolved within 6 months of the date of the final report. The Navy, Air Force, and DLA should provide responses on the unresolved issues in this report within 60 days of the date of this memorandum.

The cooperation and courtesies extended to our audit staff are appreciated. A list of the Audit Team Members is in Appendix I. Please contact Mr. James Helfrich or Mr. Joel Chaney at our Columbus office at (614) 238-4141 (AUTOVON 850-4141) if you have any questions concerning the final report. Copies of the final report are being distributed to the activities listed in Appendix J.



Edward R. Jones  
Deputy Assistant Inspector General  
for Auditing

Enclosures

cc:  
Secretary of the Army  
Secretary of the Navy  
Secretary of the Air Force

REPORT ON THE AUDIT OF  
SCREENING OF MATERIEL AVAILABLE IN THE  
DEFENSE REUTILIZATION AND MARKETING SERVICE

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Prepared by:  
Logistics Support Directorate  
Project No. 9SS-0010

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REPORT ON THE AUDIT OF  
SCREENING OF MATERIEL AVAILABLE IN THE  
DEFENSE REUTILIZATION AND MARKETING SERVICE

PART I - INTRODUCTION

Background

Property (materiel) that DoD wholesale, retail, and using activities determine to be excess to their needs is turned in to the Defense Reutilization and Marketing Service (DRMS) for disposal. The principal methods of disposal are redistribution to other DoD activities, transfer to other Federal Agencies, donation, or sale. Redistribution, which is generally referred to as "reutilization," is promoted within DoD because it can preclude purchase or repair of similar items by DoD activities. DoD established Front End Screening (FES) and Final Asset Screening (FAS) programs to foster reutilization of DRMS materiel by wholesale inventory management activities. In FES, materiel is offered to the DoD inventory management activities shortly after it has been received into the DRMS inventory. If, after approximately 4 months, the materiel is not redistributed as a result of FES or subsequent screening by other DoD and eligible activities, DRMS offers the materiel in FAS to DoD inventory management activities. If the materiel is not redistributed in FAS, it is put up for public sale. Generally, the materiel that is offered under the FES/FAS programs has a national stock number (NSN), is in a particular useable or restorable physical condition specified by the managing DoD Component, and meets a minimum dollar value criterion per line item.

Objectives and Scope

The audit objectives were to evaluate the adequacy and effectiveness of the DoD wholesale inventory management activities' screening and requisitioning of materiel in the DRMS during the FES and FAS processes. We also evaluated internal controls used to ensure that DoD Components were enforcing applicable policies. The audit concluded that internal controls were not adequate because procedures, criteria, and managerial controls did not ensure that wholesale inventory management activities would screen and order materiel available for reutilization in DRMS.

We tested FES/FAS notices that DRMS sent to DoD wholesale inventory managers from August 21 through December 20, 1988. We selected 539 notices valued at \$69 million from 20,978 notices valued at \$394.6 million that DRMS sent to 33 activities. Our audit results are based on a detailed review of the procedures, controls, and sample transactions at 10 inventory management activities and DRMS, but we also evaluated procedures and controls at 5 other inventory management activities. Our sampling plan is discussed in Appendix A.

In this report, the values identified with the sample universe, individual sample transactions, and projections are based on the standard price of the items as of September 1988, in the Federal Catalog System, unless otherwise noted. The prices relate to items in serviceable (ready-for-issue) condition. However, some of the materiel reported in FES/FAS was unserviceable and required some repair before it could be considered ready-for-issue. Accordingly, precise values for all items were not readily determinable without substantial physical and technical evaluations, which were not feasible in this audit.

We also reviewed the DRMS inventory for availability of materiel that nine wholesale inventory managers were purchasing while our audit was in-process. We requested wholesale inventory management activities to provide data on procurement actions in-process for which contracts had not been awarded. With those data, we queried the DRMS' Integrated Disposal Management System to identify available assets. We reviewed the management activities' requirements for items that had more than \$1,000 worth of ready-for-issue assets available in the DRMS inventory and for which there was a concurrent procurement in-process to determine whether the DRMS' assets could be reutilized and whether the procurement should be curtailed.

This economy and efficiency audit was made from October 1988 through June 1989 in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD, and accordingly included such tests of internal controls as were considered necessary. Activities visited or contacted during the audit are shown in Appendix H.

#### Prior Audit Coverage

Office of the Assistant Inspector General for Auditing Report No. 84-100, "Report on the Audit of Defense Property Disposal Office, Charleston, Charleston, South Carolina," June 27, 1984, reported on screening notices related to materiel that had been turned in to the Charleston office. The review was limited to screening at the Ships Parts Control Center, Mechanicsburg, Pennsylvania; the Defense Construction Supply Center, Columbus, Ohio; and the Defense Electronics Supply Center, Dayton, Ohio. The report determined that items qualifying for Front End and Final Asset Screening were offered to the materiel managers and that the managers recouped assets when requirements/stock positions justified such action. The report did not make any recommendations relating to Front End or Final Asset Screening.

General Accounting Office Report No. NSIAD-88-106, (OSD Case No. 7111-A), "Internal Controls: Air Force Correcting Weaknesses In Its Property Disposal Procedures," April 20, 1988, reported that the Air Force had implemented actions to improve the screening of items in the disposal process by reprogramming the excess item management system to automatically recall serviceable items from disposal when outstanding requirements had



been registered in the system, and to produce automated listings for item managers to review offers of serviceable and reparable assets that exceeded recorded requirements. The report did not make any recommendations.

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## PART II - FINDING AND RECOMMENDATIONS

### Screening of Excess Materiel

#### FINDING

Inventory management activities did not screen, and submit valid requisitions for, materiel that the Defense Reutilization and Marketing Service (DRMS) offered. This occurred because procedures, criteria, and managerial controls and oversight relating to the Front End Screening (FES) and Final Asset Screening (FAS) programs were inadequate. As a result, for the 4-month period from August 21 through December 20, 1988, the wholesale inventory managers should have, but did not, recover materiel valued at \$23 million from the disposal system to satisfy forecasted requirements or to fill authorized stock retention levels.

#### DISCUSSION OF DETAILS

Background. DoD wholesale inventory management activities are required to screen FES/FAS notices. If they foresee a need for the materiel that is offered on a notice, they are to requisition it from the DRMS. DoD wholesale managers do not requisition most of the materiel subjected to the FES/FAS processes because they previously determined that they had no need for the materiel when it was offered to them under the Materiel Returns Program (return of materiel by customers) or they had declared the materiel excess to their needs and had turned it over to DRMS for disposal. However, because of changes in requirements forecasts or bypasses in the Materiel Returns Program, there is a considerable amount of materiel that is reported in the FES/FAS processes that could be reutilized and should be requisitioned by the wholesale inventory management activities.

FES and FAS, therefore, offer DoD inventory management activities good opportunities to avoid purchasing new materiel, to recover and economically repair unserviceable materiel, and to acquire materiel for reserve purposes at little cost.

Screening and Requisitioning FES/FAS Materiel. In a 4-month period from August 21 through December 20, 1988, the DRMS offered \$394.6 million of serviceable and unserviceable materiel to wholesale inventory managers on FES/FAS notices valued at \$1,500 or more. We estimated that the wholesale managers should have ordered \$26.9 million of this materiel from DRMS, but, as of the time of our audit, they had sent valid requisitions for only \$3.7 million of the materiel. This problem occurred because wholesale managers had not adequately screened FES/FAS notices and submitted requisitions in the correct format. As a result, materiel that the wholesale managers could have used to fill

requirements or authorized retention levels was not recovered from the DRMS, and much of it could be disposed of for a small fraction of its value.

Our sample of 539 FES/FAS notices of materiel valued at \$69 million indicated that materiel related to 66 of the notices and valued at \$2.2 million should have been recovered from the disposal process for future use or to satisfy authorized retention levels. The FES/FAS notices were not reviewed on a timely basis, and requisitions were not processed to recoup the materiel available in the DRMS. Before our review, the inventory management activities initiated and submitted proper requisitions to recover materiel valued at \$.3 million related to nine notices. The principal reasons why valid requisitions were not submitted to recover materiel from the DRMS follow.

Procedures and Controls for Review of Notices. The Army and Navy inventory management activities did not have adequate written procedures or controls to ensure that notices were reviewed on a timely basis. For 57 notices where recoupment of materiel valued at \$1.9 million was appropriate, but had not been accomplished, the inventory management activities had not taken timely action to screen materiel on 29 notices valued at \$1.4 million. For example, on September 2, 1988, DRMS sent a FES notice to the Army Communications-Electronics Command (CECOM) for 24 actuators (national stock number [NSN] 1680-007-533-3972) valued at \$61,056 that were in unserviceable, economically reparable ("F") condition. The actuators were scheduled for overhaul through fiscal year 1994, and the DRMS assets could have been used to complete the overhaul program. As of March 30, 1989, there was no indication that CECOM had reviewed the FES notice. As a result of our finding, CECOM initiated a requisition to DRMS for the 24 actuators. In another instance, DRMS sent a FAS notice for a ram air turbine governor (NSN 1650-00-409-1557) valued at \$19,610 to the Navy Aviation Supply Office (ASO) on October 9, 1988. The governor was in "F" condition. As of April 6, 1989, ASO had not reviewed this notice. The total net assets of the governor were below both the authorized return and retention levels, there was an ongoing repair program for the item, and a procurement action to purchase new governors was in process. When we discussed the FAS notice at ASO, the item manager wanted to order and repair the governor, but the holding marketing office advised us that the item had been scrapped on December 27, 1988.

Criteria for Deciding Whether to Recoup Materiel. The criteria that the Defense Logistics Agency (DLA) and the Navy used in deciding whether to retrieve materiel from the DRMS inventory were not appropriate because they were more restrictive than the criteria that those Components used in deciding whether to accept the materiel in the Materiel Returns Program or whether to declare materiel on hand as excess. This problem could cause unnecessary future investments in inventory. For 21 items in our sample, the Defense Construction Supply Center (DCSC), the

Defense Electronics Supply Center (DESC), and the Navy Ships Parts Control Center (SPCC) should have ordered materiel valued at \$373,884 from DRMS to satisfy forecasted requirements and authorized retention levels. For example, in October 1988, DCSC received a FAS notice for 966 rack gears (NSN 3020-00-293-4596) in serviceable condition. As of March 1989, DCSC had taken no action to order the gears. The gears were not ordered because the DLA policy on FES/FAS did not require that the materiel be requisitioned if the quantity of stock on hand was greater than four times the item's reorder point quantity. The stock on hand amounted to 1,357 units while 4 times the reorder point was 660 units. However, if this same materiel had been offered to DCSC under the DLA's Materiel Returns Program, it would have been accepted for return. If the materiel was already in the item manager's inventory, it would have been retained rather than excessed. Under DLA's policies, the retention limit for the gears was 2,720 units because the gear was a designated critical weapon system item, which has a retention limit equivalent to 20 years of demand. When we discussed this sample at DCSC, the item manager attempted to retrieve the assets, but was not successful. The 966 gears were sold for \$2,065, an average of \$2.14 per unit or about 4 percent of the standard price (\$52.35) for the item.

The condition in the Navy wholesale inventory management activities was similar to that at DLA. If materiel was offered to the inventory management activities under the FES/FAS programs, the decision of whether to order the materiel depended on the relationship of the assets to the Transferable Reimbursable Requirements Level. However, if the same materiel had been offered under the Navy's Materiel Returns Program, it would have been accepted for return. If the materiel was already in the item manager's inventory, it would have been retained rather than excessed because those decisions on materiel returns and retention depended on the relationship of the assets to the Maximum Retention Level. The requirements of the Maximum Retention Level are usually larger than the requirements of the Transferable Reimbursable Requirements Level because they include requirements for other purposes (for example, economic retention stock).

Requisitions to Recoup Materiel. The Sacramento Air Logistics Center (the Center) did not requisition materiel valued at \$160,905 related to three notices because the Materiel Utilization and Control Office did not follow internal operating instructions. The Directorate of Materiel Management, Sacramento Air Logistics Center, issued Operating Instruction 65-15, "Front End Screening/Final Asset Screening," in January 1986. This Instruction requires that item managers review FES/FAS referral listings, annotate need for assets on the referral listings, and return the referral listings to the Materiel Utilization and Control Office. The Instruction directs that when the item

manager returns the listings, the Materiel Utilization and Control Office will prepare requisitions to fill the item manager's requirements and submit them to the DRMS.

In our review of 30 FES/FAS notices that the Center received, the item manager directed use of assets related to 3 of the notices, but the Materiel Utilization and Control Office did not prepare and submit requisitions for the assets. For example, on September 16, 1988, the item manager reviewed FAS notice SZ31998127K004 for an actuator (NSN 1650-00-079-0568) and directed that the actuator, valued at \$31,690, be reutilized. However, the Materiel Utilization and Control Office did not requisition the assets. When we brought this to the Center's attention, the assets were still available in the DRMS, and the Center requisitioned the materiel.

The SPCC requisitioned materiel valued at \$33,920 related to three notices (two FES, one FAS), but the DRMS rejected the requisitions. The requisitions were rejected because they were not in the format prescribed by the DoD Manual 4000.25-1-M, "Military Standard Requisitioning and Issue Procedures," dated May 1, 1987. We brought this problem to the attention of the Navy Fleet Materiel Support Office, which corrected the problem while the audit was in-process. The problem is discussed in Appendix B. When we discussed the problem with SPCC, it submitted a new requisition in the correct format for materiel valued at \$17,220 related to one of the three notices.

DRMS rejected the second SPCC requisition, but for a different reason. In the requisition processing routine at DRMS, the two-position alpha/numeric condition code of the materiel being ordered is compared with a table of materiel condition codes that are authorized to be issued to activities of the requisitioning Component. When the materiel being ordered has a condition code that an activity of the Component is not authorized to order, the requisition is automatically rejected. In this case, SPCC submitted requisition No. N00104-9067-S039 for two simulators (NSN 6625-00-111-4497) relating to FAS notice SH5700-8260-K003. The materiel was reportedly in condition code A-3 (serviceable, unused, poor); however, the only materiel in serviceable condition (A), which the table allowed to be issued to the Navy inventory managers, was materiel in either condition code A-1 (serviceable, unused, good) or A-4 (serviceable, used, good). We could not determine at either the DRMS or the Naval Supply Systems Command who specified the condition codes that were loaded into the table at DRMS, but they were not appropriate because Navy item managers were not restricted from ordering materiel in any "A" condition.

Management Control and Oversight of the FES/FAS Program.  
Except for DLA, none of the DoD Components or their inventory management activities that we visited had adequate control and oversight of the FES/FAS programs at their activities. Generally, they did not accumulate and prepare periodic reports

on the number of FES/FAS notices received, the value of materiel offered on the notices, the number and value of notices reviewed, the number and value of requisitions sent to DRMS to recover materiel, and DRMS' responses to the requisitions (for example, materiel received, requisition canceled, requisition rejected). As a result, management was not kept abreast of the effectiveness of a program that could conserve fund outlays for inventory investments. There were no written policies or procedures requiring the development and managerial evaluation of FES/FAS program data.

If information on the effectiveness of their FES/FAS programs had been available, managers at activities such as the Army Aviation Systems Command and the SPCC would have been aware that the DRMS had been rejecting their requisitions for FES/FAS materiel for months because of format errors, and that their inventory management records showed substantial materiel due in from DRMS, which would not be received. Similarly, management at the Navy ASO and the Army Troop Support Command might have known on a timely basis that they were requisitioning little, if any, materiel in response to FES/FAS notices because they had internal processing problems.

Our principal test in this audit was of FES/FAS notices, but we also reviewed procurements in-process at some wholesale inventory management activities to determine whether they were conforming to a particular procurement regulatory requirement that relates to materiel in the FES/FAS programs. The Federal Acquisition Regulation, section 8.102, requires procurement activities to use excess property as the first source-of-supply to preclude concurrent procurement and disposal of the same items. Our limited review of in-process procurements disclosed that the Army, Navy, and DLA did not have adequate procedures and controls to preclude purchase of materiel when the same materiel was available in the DRMS inventory under the FES/FAS programs. We found 139 items being procured at 9 activities, while required quantities of the same types of items valued at \$1,127,331 were available in the DRMS inventory. When this was brought to the item managers' attention, they initiated requisitions to obtain \$481,618 of the materiel.

Conclusion. The wholesale inventory management activities could substantially increase their use of materiel that is available to them through FES and FAS. If the \$23.2 million of additional reutilization that we estimated for a 4-month period is only somewhat representative of the value of materiel that wholesale activities might retrieve through FES and FAS in the course of a year, improvements in procedures, expanded criteria, and managerial control and oversight should yield some meaningful savings and more depth in reserve stocks for DoD's wholesale inventory management activities. Considering the magnitude of the offerings in FES and FAS and the funding prospects for DoD's

spare and repair parts requirements, we believe there is ample incentive for the DoD Components to make changes and emphasize reutilization of FES/FAS materiel.

#### RECOMMENDATIONS FOR CORRECTIVE ACTION

1. We recommend that the Commanders, Army Materiel Command and Naval Supply Systems Command, establish procedures and controls for timely review and response to Front End Screening and Final Asset Screening notices at wholesale inventory management activities.

2. We recommend that the Commander, Naval Supply Systems Command, and the Director, Defense Logistics Agency, revise criteria for reutilization of materiel offered in the Front End Screening and Final Asset Screening programs to be consistent with their criteria for deciding whether to accept materiel offered under their Materiel Returns Programs and for retaining materiel that is on hand in their wholesale inventories.

3. We recommend that the Commanders, Army Materiel Command, Naval Supply Systems Command, and Air Force Logistics Command, establish management controls and oversight to monitor the effectiveness of the Front End Screening and Final Asset Screening programs. This should include periodic reporting and evaluations of numbers and values of materiel on notices received and screened, requisitions initiated, and responses by DRMS to the requisitions.

4. We recommend that the Commanders, Army Materiel Command and Naval Supply Systems Command, and the Director, Defense Logistics Agency, establish procedures and controls to preclude concurrent procurement of materiel available for reutilization in the Defense Reutilization and Marketing Service.

5. We recommend that the Commanders, Naval Supply Systems Command and Defense Reutilization and Marketing Service, revise the condition code criteria used in the mechanized processing of Navy requisitions for Defense Reutilization and Marketing Service materiel to preclude automatic rejection of requisitions for materiel that Navy item managers want to reutilize.

#### MANAGEMENT COMMENTS

The Army concurred with the Finding and Recommendations and stated that corrective action had been initiated. The full text of the Army's comments is in Appendix C.

The Navy concurred with the Finding and Recommendations 1., 3., 4., and 5., and stated that it had initiated corrective actions. The Navy did not agree with Recommendation 2. on revising criteria for reutilization because the Navy felt that adoption of the same criteria for recoupment of materiel on FES/FAS offers as for acceptance of materiel in the Returns



Program would result in repetitive and costly cycles of disposal and recall of the same materiel. The full text of the Navy's comments is in Appendix D.

The Air Force agreed with the intent of Recommendation 3., but did not believe that corrective action was necessary. The Air Force felt that its existing procedures and controls were adequate. The full text of the Air Force's comments is in Appendix E.

DLA did not concur with the Finding because it did not believe that the recommendations would significantly increase its recovery of usable materiel from DRMS. DLA did not concur with Recommendation 2. on revising criteria for reutilization because DLA felt it would not be cost-effective to establish additional internal controls and return materiel to stock that may not be used for 10 to 20 years after recovery. DLA concurred with Recommendation 4. on precluding concurrent procurement and disposal, but indicated that it already had adequate internal controls to ensure that procurements were not initiated when usable stock was available in the disposal system. DLA also concurred with Recommendation 5., but provided no date for implementation of corrective action, saying implementation had to be initiated by the Navy before DRMS could act. The full text of DLA's comments is in Appendix F.

#### AUDIT RESPONSE TO MANAGEMENT COMMENTS

The Navy and the Defense Logistics Agency's nonconcurrences on Recommendation 2. to revise criteria for recovering materiel from FES/FAS to the same extent as under the Materiel Returns Program are not consistent with DoD policy or supported by substantive economic data. DoD policy encourages maximum reutilization of materiel in DRMS. We understand the Navy's reluctance to have a Navy wholesale inventory activity excess and subsequently recoup the same materiel up to a maximum retention level, but our audit did not disclose repetitious excessing and recoupment. Most of the Navy-managed items that we concluded should have been recouped had not been turned in to the DRMS by a Navy wholesale inventory management activity and would not have put total Navy wholesale assets at or near the maximum retention level if they had been recouped. The Navy item managers with whom we discussed the sample items felt they could use the materiel in DRMS and initiated requisitions to recoup the materiel. We also understand the DLA's reluctance to install additional controls and avoid outlays for transporting, inspecting, and repacking materiel when it may not be used for 10 to 20 years, if ever. Similar arguments could be made for materiel offered to DLA under the Materiel Returns Program, yet DLA reviews and accepts such materiel up to the maximum retention level. Moreover, most of the materiel in our sample either could have been issued by the DLA wholesale activities in less than 5 years or was related to active weapon systems and therefore warranted retention according

to DoD policy. We request that the Navy and DLA reconsider their positions on Recommendation 2. when responding to this final report.

The Air Force's response to Recommendation 3. pointed out various systems and procedures that contributed to the control and oversight of the FES/FAS processes at the Air Logistics Centers. We agree that they generally were, or could have been, effective in assuring that FES/FAS materiel was screened, but our audit indicated that they did not provide reasonable assurance that the materiel the managers decided to reutilize was actually requisitioned and received from DRMS. Accordingly, we believe that the recommendation is still valid and request that the Air Force reconsider its position when responding to this final report.

DLA's position on Recommendation 4. is not consistent with our audit results. We agree that DLA's mechanical procedure for requisitioning materiel in DRMS and its manual procedure for item manager review are important factors in precluding DLA purchases of materiel when serviceable materiel is available for reutilization in DRMS. However, the procedures did not obviate concurrent procurement and disposal at DLA inventory management activities and therefore the controls were not adequate. Accordingly, we request that DLA reconsider its position on this recommendation when responding to this final report.

The Navy and DLA concurred with Recommendation 5. and agreed to take appropriate corrective action. However, they did not provide estimated completion dates for the planned actions. We ask that the Navy and DLA provide completion dates relating to this recommendation when responding to this final report.

## STATISTICAL SAMPLING PLAN AND RESULTS

Front End Screening (FES) and Final Asset Screening (FAS) notices are electronically communicated from the Defense Reutilization and Marketing Service (DRMS) to DoD wholesale inventory management activities. At our request, the Defense Automatic Addressing System Office, Dayton, Ohio, extracted the FES/FAS notices from the communications network for the 4-month period August 21 through December 20, 1988. In that period, the DRMS transmitted 112,142 notices for materiel valued at \$467.8 million, which was based on quantities and unit prices contained in the notices. We excluded 12,353 notices related to materiel valued at \$93.7 million from our review because they were for materiel in unserviceable-condemned condition. Our initial stratification of the remaining 99,789 notices by dollar value showed that 78,811 were for materiel valued at less than \$1,500 and their total value was less than 8 percent (\$28.1 million) of the \$374.1 million total. We limited our audit sample universe to the remaining 20,978 notices valued at \$345.9 million that DRMS had sent to 33 DoD inventory management activities.

We sorted the notices by activity and drew a statistical sample of 539 notices related to 10 inventory management activities for our audit test. Because of inconsistencies we noted in unit prices for identical stock numbers among the 20,978 notices, we revalued the notices at the unit price shown for a particular stock number in the Federal Catalog System (Consolidated Management Data List) in September 1988. This resulted in a total value of \$394.6 million for the 20,978 notices. Our statistical sample and results are all based on uniform pricing data. The 10 DoD inventory management activities included 3 Army, 3 Navy, 2 Air Force, and 2 Defense Logistics Agency activities. Those activities accounted for 15,923 of the 20,978 notices and \$302.4 million of the \$394.6 million materiel value in our sample universe. We projected our results relating to the sample of 539 notices at 10 activities to the 20,978 notices at 33 activities with a confidence level of 95 percent and a sampling precision of  $\pm 5$  percent for attributes and  $\pm 12$  percent for dollars. For the 33 activities, we estimated that the wholesale inventory management activities should have ordered FES/FAS materiel valued at \$26.9 million, but actually ordered only \$3.7 million. The statistical sample and results are shown in the following tables.

STATISTICAL SAMPLING PLAN AND RESULTS (continued)

TABLE 1

SAMPLE UNIVERSE AND SAMPLE SIZE BY ACTIVITY

<u>Activity</u>	<u>Universe</u>		<u>Sample Selected</u>	
	<u>Items</u>	<u>Value(000)</u>	<u>Items</u>	<u>Value(000)</u>
Army Communications-Electronics Command	1,707	\$ 38,822	80	\$10,253
Army Aviation Systems Command	445	27,926	45	17,528
Army Missile Command	1,604	28,083	45	4,041
Navy Ships Parts Control Center	2,005	33,375	60	7,763
Navy Aviation Supply Office	4,915	96,551	90	9,809
Navy Civil Engineering Support Office	63	2,856	20	1,563
Air Force Sacramento Air Logistics Center	868	13,393	30	3,364
Air Force Warner Robins Air Logistics Center	1,597	38,255	70	10,777
DLA <sup>1/</sup> Defense Construction Supply Center	1,696	17,463	70	3,128
DLA Defense Electronics Supply Center	<u>1,023</u>	<u>5,709</u>	<u>29</u>	<u>1,260</u>
Total	<u>15,923</u>	<u>\$302,433</u>	<u>539</u>	<u>\$69,486</u>

<sup>1/</sup> Defense Logistics Agency

STATISTICAL SAMPLING PLAN AND RESULTS (continued)

TABLE 2

RESULTS OF AUDIT AND PROJECTED POTENTIAL LOSSES

<u>Activity</u>	<u>Potential Loss <sup>2/</sup></u>		<u>Projected Potential Loss</u>	
	<u>Number</u>	<u>Value(000)</u>	<u>Number</u>	<u>Value(000)</u>
Army Communications-Electronics Command	10	\$ 795,445	311	\$ 3,079,722
Army Aviation Systems Command	2	77,662	16	464,503
Army Missile Command	2	22,476	49	533,909
Navy Ships Parts Control Center	9	145,763	514	2,974,144
Navy Aviation Supply Office	7	145,440	1,069	7,088,607
Navy Civil Engineering Support Office	1	77,041	2	120,598
Air Force Sacramento Air Logistics Center	4	184,129	69	1,831,748
Air Force Warner Robins Air Logistics Center	1	109,936	2	242,354
DLA Defense Construction Supply Center	13	175,084	278	1,290,680
DLA Defense Electronics Supply Center	<u>8</u>	<u>196,386</u>	<u>191</u>	<u>1,033,947</u>
Total	<u>57</u>	<u>\$1,929,362</u>	<u>2,501</u>	<u>\$18,660,212</u>

<sup>2/</sup> ICP had taken no action on these items that should be recovered

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**SUMMARY OF CONDITIONS IDENTIFIED AND CORRECTED**  
**DURING THE AUDIT**

In the early part of this audit, we identified systemic conditions at some wholesale inventory management activities that virtually precluded their reutilization of materiel offered to them by the Defense Reutilization and Marketing Service (DRMS) during the Front End Screening (FES) and Final Asset Screening (FAS) processes. We brought these conditions to the attention of the affected activities so that corrective action could be quickly initiated. The conditions are synopsized below.

**Requisition Format.** The DRMS automatically canceled requisitions for FES/FAS materiel that the Army Aviation Systems Command, the Army Communications-Electronics Command, and the Navy Ships Parts Control Center electronically submitted, and the DRMS was not notifying the inventory management activities of the cancellations. As a result, the wholesale activities did not receive the materiel that they ordered and their inventory management records erroneously showed inventory due in that would not be received. The ultimate effect would be that DRMS would scrap or sell that materiel for a few cents on the dollar when it could have been used by, and was of greater value to, the inventory management activities. These conditions occurred because the wholesale inventory management activities did not submit requisitions for FES/FAS materiel in the correct format, and DRMS did not provide those activities the prescribed notification of cancellation, in accordance with DoD Manual 4000.25-1-M, "Military Standard Requisitioning and Issue Procedures."

**Requisition Submission.** The Army's Tank-Automotive Command and the Troop Support Command did not prepare and submit to DRMS requisitions that should have been generated automatically, or in accordance with item managers' decisions. As a result, materiel available under the FES/FAS programs was not ordered and reutilized by those wholesale inventory management activities. This occurred because automated systems had not been implemented or were not being used properly.

The Army Materiel Command, the Army Central Systems Design Activity, the four Army wholesale logistics activities, the Navy Fleet Materiel Support Office, and the Navy Ships Parts Control Center took immediate action when we brought these problems to their attention. For example, the four Army activities and the Navy Ships Parts Control Center submitted over \$6 million in valid requisitions for FES/FAS materiel to DRMS, and invalid dues-in requisitions valued at \$8 million related to FES/FAS requisitions were identified and deleted from the inventory management records at two Army activities before our field work was completed.

**SUMMARY OF CONDITIONS IDENTIFIED AND CORRECTED**  
**DURING THE AUDIT** (continued)

This report does not contain recommendations on the conditions described above because management implemented immediate and effective corrective action while the audit was in-process. We appreciate such timely cooperation.





DEPARTMENT OF THE ARMY  
OFFICE OF THE DEPUTY CHIEF OF STAFF FOR LOGISTICS  
WASHINGTON DC 20310-0500



DALO-SMP-S 8901727L

1989

COMUSMACV/EXECUTIVE/79039

MEMORANDUM THRU ~~DEPUTY CHIEF OF STAFF FOR LOGISTICS~~  
~~DIRECTOR OF THE ARMY STAFF~~ JOYCE C. FULION, MAJ, GS, ADAS  
~~ASSISTANT SECRETARY OF THE ARMY (INSTALLATIONS~~  
~~LOGISTICS AND ENVIRONMENT)~~ 12/20/89  
~~ASSISTANT SECRETARY OF DEFENSE (PRODUCTION AND LOGISTICS)~~ Crsini  
of the Army

FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING, DEPARTMENT OF  
DEFENSE

SUBJECT: Report on the Audit of Screening of Materiel Available  
in the Defense Reutilization and Marketing Service  
(9SS-0010)--INFORMATION MEMORANDUM

1. This responds to DAIG memorandum of 6 October 1989, subject as above (Tab A).
2. The Army has reviewed the draft report on this audit and concurs on the finding and recommendations. We have initiated actions in the area of asset screening which address the deficiencies noted in the draft report. These are synopsized in our specific comments on the audit findings and recommendations which are enclosed at Tab B.
3. NCOs - Leadership for Logistics.

2 Encls

*J. E. Rozier*  
JACKSON F. ROZIER, JR.  
Major General, GS  
Director of Supply  
and Maintenance

CF:  
DALO-RMM  
SAIG-PA  
AMCSM-MSM

OASA(IL&E) - Concur, Mr. Croom/X75727 (Conference)  
AMCSM-MSM - Concur, Mr. Martinez/274-9838 (Conference)

George Carlisle/X52209



FOR OFFICIAL USE ONLY

DEPARTMENT OF THE ARMY  
OFFICE OF THE INSPECTOR GENERAL  
WASHINGTON, DC 20310-1700



S: 24 November 1989

SAIG-PA (36-2b)

6 October 1989

MEMORANDUM FOR DEPUTY CHIEF OF STAFF FOR LOGISTICS

SUBJECT: Report on the IG DoD Audit of Screening of Materiel Available in the Defense Reutilization and Marketing Service (9SS-0010)

1. Enclosed is IG DoD memorandum, with draft report, for review and action. Army Regulation 36-2 requires an information memorandum alerting the Secretary of the Army and the Chief of Staff if the report contains criticism of DA policy, procedures, or practices, which may result in adverse publicity. If required, submit the information NLT 18 October 1989.
2. If you require input from other Army elements to formulate an Army position, request that information from those organizations by separate correspondence. Send the correspondence through the internal review offices of other staff or command elements, where applicable.
3. Request that you forward your response through SAIL to the IG DoD (Auditing) NLT 24 November 1989. In addition, forward a copy of that response to SAIG-PA.
4. DODD 7650.3 requires that your comments indicate either agreement or disagreement for each finding, recommendation, or estimated monetary benefit. If you agree, describe the corrective actions taken or planned, the completion dates for actions already taken, and the estimated completion dates for the planned actions. Agreement with monetary benefits may necessitate the recovery of resources; if so, include the status of this recovery action in the DA comments. If you disagree with any of the findings, recommendations, or estimated monetary benefits, state the specific reason(s) for disagreement and provide revised estimates of monetary or other anticipated benefits. If appropriate, you may suggest different methods for accomplishing needed improvements.
5. If you desire further information, contact Ms. Flanagan at 44646.

FOR THE INSPECTOR GENERAL:

Encl

*James J. McDevitt*  
JAMES J. MCDEVITT  
Colonel, IG  
Chief, Operations, Plans, and  
Analysis Division

CF:

SAFM-ROM  
SAIL  
SALL

SAFM-FAI  
SARD-ZE  
SAAG-PRP

SAPA  
DACS-DM  
SAIG-PA (OPNS)

DALO-RMM  
AMC (RM-IA)

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DALO-SMP-S

SUBJECT: Report on the Audit of Screening of Materiel Available  
in the Defense Reutilization and Marketing Service  
(9SS-0010)--INFORMATION MEMORANDUM

FINDING: Inventory management activities did not screen and submit valid requisitions for materiel that was offered by the Defense Reutilization and Marketing Service (DRMS). This occurred because procedures, criteria, and managerial controls and oversight relating to the Front End Screening (FES) and Final Asset Screening (FAS) programs were inadequate. As a result, for the 4-month period from August through December 1988, the wholesale inventory managers should have, but did not, recover materiel valued at \$23 million from the disposal system to satisfy forecasted requirements or to fill authorized stock retention levels.

ARMY RESPONSE: Concur. ADDITIONAL FACTS: None.

RECOMMENDATION 1: That the Commanders, Army Materiel Command and Naval Supply Systems Command, establish procedures and controls for timely review and response to Front End Screening and Final Asset Screening notices at wholesale inventory management activities.

ARMY RESPONSE: Concur. Procedures and controls for review and response to FES/FAS have been included in our pending revision of AR 710-1, Centralized Inventory Management of the Army Supply System. AR 710-1 is scheduled for publication in FY90.

RECOMMENDATION 3. That the Commanders, Army Materiel Command, Naval Supply Systems Command, and Air Force Logistics Command, establish management controls and oversight to monitor the effectiveness of the Front End Screening and Final Asset Screening programs. This should include periodic reporting and evaluations of numbers and values of materiel on notices received and screened, requisitions initiated, and responses by DRMS to the requisitions.

ARMY RESPONSE: Concur. Prior to AR 710-1 publication, a message will be sent to all AMC Major Subordinate Commands advising them of revised AR 710-1 guidance, and requiring FES/FAS effectiveness tracking be included in quarterly Review and Analysis.

RECOMMENDATION 4. That the Commanders, Army Materiel Command and Naval Supply Systems Command, and the Director, Defense Logistics Agency, establish procedures and controls to preclude concurrent procurement of materiel available for reutilization in the Defense Reutilization and Marketing Service.

ARMY RESPONSE: Concur. As part of the dissemination of AR 710-1, item managers will be directed to use FES/FAS before initiating any new procurement.

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587

DEPARTMENT OF THE NAVY  
THE ASSISTANT SECRETARY OF THE NAVY  
(SHIPBUILDING AND LOGISTICS)  
WASHINGTON, DC 20360 5000

12 DEC 1989

MEMORANDUM FOR THE DIRECTOR, LOGISTICS SUPPORT DIRECTORATE,  
OFFICE OF THE DEPARTMENT OF DEFENSE  
ASSISTANT INSPECTOR GENERAL

Subj: DRAFT REPORT ON THE AUDIT OF SCREENING OF MATERIAL  
AVAILABLE IN THE DEFENSE REUTILIZATION AND MARKETING  
SERVICE (PROJECT NO. 9SS-0010)

Encl: (1) Navy comments

In reply to your memorandum of 3 October 1989, we concur with the findings and recommendations with one exception. We do not concur with your recommendation to use the same criteria for retrieving material offered by disposal as used in the Material Returns Program.

Our detailed comments are in enclosure (1).

  
FRANK W. SWOFFORD

By Direction of the Secretary of the Navy

Copy to:  
NAVINGEN  
NAVCOMPT (NCB-53)

Blind copy to:  
ASN(FM)  
AUDGENAV  
NAVSUP (SUP 91)  
ASO (ASO-092)  
SPCC (SPCC-09A1)

NAVAL SUPPLY SYSTEMS COMMAND RESPONSE  
TO DODIG REPORT ON THE AUDIT OF  
SCREENING OF MATERIAL AVAILABLE IN  
THE DEFENSE REUTILIZATION AND MARKETING SERVICE

SUMMARY OF FINDING

Inventory management activities did not screen and submit valid requisitions for material that was offered by the Defense Reutilization and Marketing Service (DRMS). This occurred because procedures, criteria, managerial controls, and oversight relating to Front End Screening (FES) and Final Asset Screening (FAS) programs were inadequate.

Navy Comment

Concur

Recommendation 1

Recommend that Naval Supply Systems Command establish procedures and controls for timely review and response to FES/FAS notices at wholesale inventory management activities.

Navy Comment

Concur. NAVSUP will direct in NAVSUPINST 4500.13, "Retention and Reutilization of Material Assets", the establishment of local controls over the review and response to screening notices at its Inventory Control Points (ICPs). Estimated Publication Date 28 February 1990.

Recommendation 2

Recommend that the Commander, Naval Supply Systems Command revise criteria for reutilization of material offered in the FES/FAS programs to be consistent with their criteria for deciding whether to accept material offered under their Material Returns Program (MRP) and for retaining material that is on hand in their wholesale inventories.

Navy Comment

Nonconcur. We do not agree that FES/FAS should use the same limit as currently used in MRP. The following rationale applies:

The System Retention Limit used in Navy material returns processing is the same as the limit on which disposal decisions for on-hand stock are based. To evaluate FES/FAS offers against the same limit which resulted in the original disposal decision would result in repetitive and costly cycles of disposal and recall of the same material. Following any wholesale disposal

action, the subsequent issue of even a single unit of remaining stock would result in assets falling below the limit and the FES/FAS offer for the material just disposed of being accepted. To preclude this occurrence, Navy properly evaluates FES/FAS offers against the Transferable Reimbursable Requirement Limit (TRRL), which excludes the holding cost-based factors of Contingency Retention and Economic Retention included in the System Retention Limit. The difference between these levels constitutes a useful "buffer" quantity which provides stability in overall material requirements determination processes.

We are also evaluating using the TRRL as the basis for accepting material offered through the MRP process.

#### Recommendation 3

Recommend that the Commander, Naval Supply Systems Command establish management controls and oversight to monitor the effectiveness of the FES/FAS programs.

#### Navy Comment

Concur. Management at the ICPs will be directed through draft NAVSUPINST 4500.13 to establish local controls to monitor their actions in the screening of excess material.

#### Recommendation 4

Recommend that the Commander, Naval Supply Systems Command establish procedures and controls to preclude concurrent procurement of material available for reutilization in the DRMS.

#### Navy Comment

Concur. NAVSUP has established a procedure to review and recall disposed material for any item in a procurement position and to reduce remaining procurement quantities. Standard formats are used (i.e., Document Identifier Codes "JTH" in the Disposal Manual for interrogations, and "AOA" in MILSTRIP for recalls).

#### Recommendation 5

Recommend that the Commander, Naval Supply Systems Command revise the condition code criteria used in the mechanized processing of Navy requisitions for DRMS material to preclude automatic rejection of requisitions for material that Navy item managers want to reutilize.

#### Navy Comment

Concur. NAVSUP will work with DRMS to remove the condition code incompatibility that exists between FES/FAS offer and acceptance documents.





DEPARTMENT OF THE AIR FORCE  
WASHINGTON, D.C. 20330-1000

OFFICE OF THE ASSISTANT SECRETARY

NOV 27 1989

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING  
OFFICE OF THE INSPECTOR GENERAL  
DEPARTMENT OF DEFENSE

SUBJECT: DoD(IG) Draft Report on the Audit of Screening of  
Materiel Available in the Defense Reutilization and  
Marketing Service (Project No. 9SS-0010) - INFORMATION  
MEMORANDUM

This is in reply to your memorandum for Assistant Secretary  
of the Air Force (Financial Management and Comptroller)  
requesting comments on the findings and recommendations made in  
subject report.

The DoD(IG) recommended that the Commander, Air Force  
Logistics Command, establish management controls and oversight to  
monitor the effectiveness of the Front End Screening and Final  
Asset Screening (FES/FAS) programs. This should include periodic  
reporting and evaluations of numbers and values of materiel on  
notices received and screened, requisitions initiated, and  
responses by Defense Reutilization and Marketing Service to the  
requisitions.

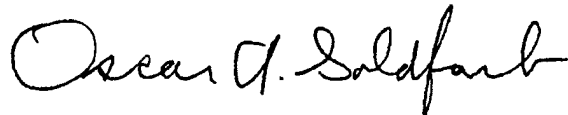
The Air Force concurs with the intent of the DoD(IG)  
recommendation. We have established Materiel Utilization and  
Control Offices (MUCOs) which are responsible for the management  
control and oversight of the FES/FAS programs. The MUCOs produce  
and receive monthly reports to evaluate FES/FAS notices and  
oversee related requisitions and asset receipts.

Our Materiel Utilization and Disposition Management System  
(D067) receives all FES/FAS referral notices and automatically  
produces requisitions for serviceable assets for which the Air  
Force has registered requirements in the D067 system. Referral  
notices for items with no registered requirements or for  
unserviceable assets in the DRMS are screened on hard copy  
listings by the inventory management specialist (IMS) and the  
MUCO. The MUCOs have controls to ensure timely distribution of  
notice listings to the IMS and return of the listings within 5  
days. The IMS monitors due-in asset records for all  
requisitions, D067 and MUCO generated, and follows up on overage  
FES/FAS due-in records.

The MUCO prepares monthly reports of the dollar value of assets retrieved from the DRMS as a result of FES/FAS and other retrieval methods. The MUCO also receives and screens monthly listings of all FES/FAS referral notices and matching requisition records. To ensure management oversight of the FES/FAS program, the MUCO is required to have a self inspection program to document and correct any procedural or compliance problems.

Within the Air Force, there is generally a low percentage of requisitions prepared in relation to the number of FES/FAS notices received. This is because requirements are thoroughly screened prior to disposal decisions and only assets validated as surplus to requirements are transferred to the DRMS. Although any process which includes subjective human decisions is open to sporadic errors, we believe management oversight and controls afforded by our MUCO system place the level of authority and responsibility at the proper management level, afford appropriate reporting and inspection, and avoid layering of reporting requirements.

We appreciate the opportunity to comment on this report.



OSCAR A. GOLDFARB  
Acting Deputy Assistant Secretary  
(AC/AF/CS)



DEFENSE LOGISTICS AGENCY  
HEADQUARTERS  
CAMERON STATION  
ALEXANDRIA, VIRGINIA 22304-6100



IN REPLY  
REFER TO

DLA-CI

05 DEC 1989

MEMORANDUM FOR DEPUTY ASSISTANT INSPECTOR GENERAL FOR AUDITING,  
DEPARTMENT OF DEFENSE

SUBJECT: Report on the Audit of Screening of Materiel Available  
in the Defense Reutilization and Marketing Service  
(Project No. 9SS-0010)

This is in response to your memorandum of 3 October 1989  
requesting comments on the Draft Report on Screening of Materiel  
Available in the Defense Reutilization and Marketing Service  
(Project No. 9SS-0010). The enclosed remarks have been approved  
by Mr. Richard J. Connelly, Deputy Comptroller, Defense  
Logistics Agency.

FOR THE DIRECTOR:

*Reatha E. Holmes*

4 Encl

REATHEA E. HOLMES  
Chief, Internal Review Division  
Office of Comptroller

cc:  
OASD (P&L) ATTN: John Marcus

TYPE OF REPORT: AUDIT

DATE OF POSITION: 5 Dec 89

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NUMBER: Draft Report on Audit of the Screening of  
Materiel Available in the Defense Utilization  
and Marketing Service (Project No. 9SS-0010)

FINDING: Screening of Excess Materiel. Inventory management activities did not screen and submit valid requisitions for materiel that was offered by the Defense Reutilization and Marketing Service (DRMS). This occurred because procedures, criteria, and managerial controls and oversight relating to the Front End Screening (FES) and Final Asset Screening (FAS) programs were inadequate. As a result, for the 4-month period from August through December 1988, the wholesale inventory managers should have, but did not, recover materiel valued at \$23 million for the disposal system to satisfy forecasted requirements or to fill authorized stock retention levels.

DLA COMMENTS: Nonconcur. The Agency does not believe that the finding and pursuant recommendations that apply to the Defense Supply Centers (DSCs) would have a significant or measurable result in additional recovery of usable stocks from Defense Reutilization and Marketing Offices (DRMOs). We do not agree that the criteria for recovery should be the same as those for returning customer excesses. Stocks recovered from a DRMO require thorough inspection and repackaging. These added costs, plus the cost to transport, must be borne by the Agency during an era of constrained resources. To expend these resources to obtain stocks which may or may not be used during a timeframe ranging from 10 to 20 years after recovery would reduce the resources available to support current customer needs. Nonconcur that additional internal controls for FES and FAS are required for DLA. The Agency believes that the cost of additional internal controls would outweigh the limited potential benefits.

MONETARY BENEFITS: None

DLA COMMENTS:

ESTIMATED REALIZATION DATE:

AMOUNT REALIZED:

DATE BENEFITS REALIZED:

ACTION OFFICER: William Gleeson, DLA-OSF, 47975

DLA APPROVAL: Richard J. Connelly

TYPE OF REPORT: AUDIT

DATE OF POSITION: 5 Dec 89

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NUMBER: Draft Report on Audit of the Screening of  
Materiel Available in the Defense  
Reutilization and Marketing Service  
(Project No. 9SS-0010)

RECOMMENDATION 2: We recommend that the Commander, Naval Supply Systems Command and the Director, Defense Logistics Agency, revise criteria for reutilization of materiel offered in the Front End Screening and Final Asset Screening Programs to be consistent with their criteria for deciding whether to accept materiel offered under their Materiel Returns Program and for retaining materiel that is on-hand in their wholesale inventories.

DLA COMMENTS: Nonconcur. We do not agree that the criteria for recovery should be the same as those for returning customer excesses. Stocks recovered from a DRMO require thorough inspection and repackaging. These added costs, plus the cost to transport, must be borne by the Agency during an era of constrained resources. To expend these resources to obtain stocks which may or may not be used during a timeframe ranging from 10 to 20 years after recovery would reduce the resources that are available to support current customer need. Nonconcur that additional internal controls would be cost effective.

DISPOSITION:

( ) Action is ongoing; Final Estimated Completion Date:  
(X) Action is considered complete.

MONETARY BENEFITS: None

DLA COMMENTS:

ESTIMATED REALIZATION DATE:

AMOUNT REALIZED:

DATE BENEFITS REALIZED:

ACTION OFFICER: William Gleeson, DLA-OSF, 47975

DLA APPROVAL: Richard J. Connelly

TYPE OF REPORT: AUDIT

DATE OF POSITION: 5 Dec 89

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NUMBER: Draft Report on Audit of the Screening of  
Materiel Available in the Defense  
Reutilization and Marketing Service  
(Project No. 9SS-0010)

RECOMMENDATION 4: We recommend that the Commanders, Army Materiel  
Command and Naval Supply Systems Command and the Director, Defense  
Logistics Agency, establish procedures and controls to preclude  
concurrent procurement of materiel available for reutilization in the  
Defense Reutilization and Marketing Service.

DLA COMMENTS: Concur. Current internal controls are in place to  
preclude concurrent procurement and disposal. The DLA Front End  
Screen/Final Asset Screen (FES/FAS) mechanical procedures ensure that  
procurements are not initiated when usable stocks are available in  
sufficient quantity in the DRMOs. Such instances would be exceptional  
and current procedures call for manager review of this type of  
exceptional occurrence.

DISPOSITION:

( ) Action is ongoing; Final Estimated Completion Date:

(X) Action is considered complete.

MONETARY BENEFITS: None

DLA COMMENTS:

ESTIMATED REALIZATION DATE:

AMOUNT REALIZED:

DATE BENEFITS REALIZED:

ACTION OFFICER: William Gleeson, DLA-OSF, 47975

DLA APPROVAL: Richard J. Connelly

TYPE OF REPORT: AUDIT

DATE OF POSITION: 5 Dec 89

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NUMBER: Draft Report on Audit of the Screening of  
Materiel Available in the Defense  
Reutilization and Marketing Service  
(Project No. 9SS-0010)

RECOMMENDATION 5: We recommend that the Commanders, Naval Supply  
Systems Command and Defense Reutilization and Marketing Service,  
revise the condition code criteria used in the mechanized processing  
of Navy requisitions for Defense Reutilization and Marketing Service  
materiel to preclude automatic rejection of requisitions for materiel  
that Navy item managers want to reutilize.

DLA COMMENTS: Concur. However, actions to implement this  
recommendation must be initiated by the Naval Supply Systems Command.  
DRMS can accommodate any condition code changes requested by the  
Services.

DISPOSITION:

- ( ) Action is ongoing; Final Estimated Completion Date.
- (X) Action is considered complete.

MONETARY BENEFITS: None

DLA COMMENTS:

ESTIMATED REALIZATION DATE:

AMOUNT REALIZED:

DATE BENEFITS REALIZED:

ACTION OFFICER: William Gleeson, DLA-OSF, 47975

DLA APPROVAL: Richard J. Connelly

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REPORT OF POTENTIAL MONETARY AND  
OTHER BENEFITS RESULTING FROM AUDIT

<u>Recommendation Reference</u>	<u>Description of Benefit</u>	<u>Amount and/or Type of Benefit</u>
Recommendations 1. through 5.	<u>Economy and Efficiency</u> -- The recovery of usable assets by inventory control points to satisfy future demands and authorized retention levels.	<p>The benefit is primarily one of cost avoidance, but the amount is not readily determinable. For the 4-month period that we sampled, we estimated that the wholesale inventory management activities should have recovered \$23.2 million of additional materiel from Front End Screening/Final Asset Screening (FES/FAS). However, this is predicated on standard prices for serviceable materiel and assumes that DoD wholesale activities would issue the materiel they recouped from DRMS and subsequently replenish their inventory via procurement.</p> <p>We know that actual prices can vary substantially from standard prices, that some of the materiel offered in FES/FAS is unserviceable, economically repairable, and that the cost of restoring unserviceable materiel to serviceable condition can vary significantly as a percentage of standard price from item to item. Moreover, because of fluctuations in demand that occur over a period of time, estimates as to when wholesale managers might use and subsequently replenish the inventory of the materiel they recoup from DRMS via FES/FAS can be tenuous.</p> <p>In light of those variables and audit time constraints, we could not develop a reliable estimate of the cost avoidance that DoD might accrue by implementation of our recommendations.</p>

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## ACTIVITIES VISITED OR CONTACTED

### Office of the Secretary of Defense

Assistant Secretary of Defense (Production and Logistics),  
Washington, DC

### Department of the Army

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Defense General Supply Center, Richmond, VA  
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Defense Personnel Support Center, Philadelphia, PA  
Defense Logistics Agency, Systems Automation Center, Columbus, OH  
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Defense Reutilization and Marketing Office, Aberdeen, MD  
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